MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

1 JUNE 2017
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. Money must be _____ which includes the fact that it should _____.
   A. in physical form; not be transferable using electronic means
   B. whatever is used in a barter system; be transferable across countries' borders
   C. accepted as a means of payment across countries' borders; not be a fiat money
   D. generally accepted as a means of payment; be recognisable and divisible into small parts

2. If Amir withdraws a RM500 from his checking account and Adam deposits another RM500 in his savings account, by how will this affect the M1 and M2?
   A. M2 will increase by RM500.
   B. M1 will decrease, and M2 will increase.
   C. M1 will decrease, but M2 will remain the same.
   D. M1 will remain the same, and M2 will increase.

Refer to ***Exhibit 1*** for question no.3.

Assets		**Liabilities**	
Reserves	RM 7,000	Deposits	RM50,000
Loans	RM43,000		

Exhibit 1

3. Based on ***Exhibit 1***, if the required reserve ratio is 10 percent, the bank can make a maximum loan of _____ with its excess reserves.
   A. RM2000
   B. RM5000
   C. RM43000
   D. RM45000

4. Suppose Jason withdraws RM1 million from his checking account at AmBank. If the required reserve ratio is 20 percent, what is the maximum change in deposits in the banking system?
   A. –RM1 million
   B. –RM4 million
   C. –RM5 million
   D. –RM200,000

5. When banks gain _____, they can _____ their loans; and the money supply _____.
   A. reserves; reduce; contracts
   B. reserves; increase; expands
   C. withdrawals; increase; expands
   D. withdrawals; decrease; expands

Continued...

6. Maybank in Malaysia has excess reserves of RM20,000, required reserves of RM80,000 and the required reserve ratio is 5 percent. What is the total amount of deposits in this bank?
   A. RM84,000
   B. RM100,000
   C. RM1,620,000
   D. RM1,600,000

7. Which of the following will lead to a decrease in the equilibrium interest rate in the economy?
   A. a decrease in GDP
   B. an increase in the price level
   C. an increase in the discount rate
   D. an increase in the reserve requirement

8. According to the equation of exchange, if velocity of money and real GDP do not change, a 3 percent increase in the quantity of money _____.
   A. raises the price level by 3 percent
   B. lowers the price level by 3 percent
   C. raises the price level by less than 3 percent
   D. raises the price level by more than 3 percent

9. When the central bank reduces the discount rate, _____.
   A. the interest rate rises and this stimulates investment spending
   B. the interest rate falls and this stimulates investment spending
   C. the interest rate rises and this stimulates consumption spending
   D. the interest rate falls and this discourages consumption spending

10. When equilibrium level is greater than full employment level, the central bank should _____.
    A. reduce the discount rate
    B. buy bonds from the public
    C. increase the required reserve ratio
    D. all of the above

11. Suppose you have RM1,000 to invest for a year and the nominal interest rate is 7%. If the inflation rate during the year is 3%, at the end of the year, your real gain from the investment is _____.

    A. RM10
    B. RM70
    C. RM40
    D. RM30

Continued...

12. In the capital market, inflation that is _____ than expected benefits _____; inflation that is _____ than expected benefits _____.
    A. lower; debtors; higher; creditors
    B. lower; debtors; lower; creditors
    C. higher; debtors; lower; creditors
    D. higher; creditors; lower; debtors

13. Demand pull inflation occurs when the aggregate _____ curve shifts _____.
    A. supply; leftward
    B. supply; rightward
    C. demand; leftward
    D. demand; rightward

14. In many large retail stores, price markdowns are now determined by computer. The "middle managers" who used to make these decisions personally became _____ unemployed.
    A. naturally
    B. cyclically
    C. frictionally
    D. structurally

15. Which of the following statements about the labour market is **TRUE**?
    A. The labour force participation rate is the ratio of employed persons to the total labour force.
    B. The labour force includes everyone over the age of 16, including those who are unemployed.
    C. Discouraged workers are those workers who have voluntarily chosen to become unemployed.
    D. The natural unemployment is usually taken to be the sum of frictional and structural unemployment.

16. Look at the following data: The frictional unemployment rate is 3 percent, the natural unemployment rate is 5.5 percent, and the cyclical unemployment rate is 2.4 percent. The structural unemployment rate is _____ percent and the actual unemployment rate (in the economy) is _____ percent.
    A. 3; 7.9
    B. 2.5; 7.9
    C. 2.5; 5.4
    D. 5.4, 2.4

17. If the central bank begins increasing the money supply at a faster rate than in the past, the short run effect is a _____.
    A. leftward shift of the AD curve
    B. downward shift of the Phillips cueve
    C. movement leftward along the Phillips curve
    D. movement rightward along the Phillips curve

Continued...

18. A product produced in Malaysia and used to trade with Singapore is an _____.
    A. export to Singapore
    B. export to Singapore and an import to Malaysia
    C. import to Singapore and an export to Malaysia
    D. none of the above

19. If one country can produce a good with fewer resources than another country, this is called _____.
    A. free trade
    B. specialisation
    C. absolute advantage
    D. comparative advantage

20. If a country has a lower opportunity cost in producing oranges, then this country is said to have _____.
    A. a tariff
    B. an absolute advantage
    C. inefficient resource use
    D. a comparative advantage

21. A straight line production possibilities curve _____.
    A. is impossible
    B. reflects increasing production costs
    C. occurs when opportunity costs are constant
    D. exists only when just one good is produced

22. A tariff is a tax on _____ goods that is designed to _____.
    A. exported; hurt foreign industries
    B. imported; protect domestic industries
    C. exported; protect domestic industries
    D. imported; made domestic consumers pay less

23. Which of the following is **NOT** used as a trade protection device?
    A. Tariff
    B. Quotas
    C. Nontariff barriers
    D. Foreign-owned domestic production

24. Which of the following does **NOT** lead to an increase in the demand for Mexican pesos?
    A. World real income rises.
    B. Mexico's interest rate rises relative to world rates.
    C. The Mexican inflation rate exceeds the world inflation rate.
    D. A worldwide change in tastes in favour of Mexican goods occurs.

Continued...

25. An increase in U.S. exports to Mexico increases the _____ for U.S. dollars and increases the _____ of pesos.
    A. supply; supply
    B. supply; demand
    C. demand; supply
    D. demand; demand

26. A U.S. citizen buys a Japanese bond. This transaction will be entered as a _____.
    A. debit in the U.S. capital account
    B. credit in the U.S. capital account
    C. debit in the U.S. current account
    D. credit in the U.S. current account

27. When an American sells an asset abroad, the transaction _____.
    A. is registered as a debit in the capital account, and it increases U.S. assets abroad
    B. is registered as a credit in the capital account, and it increases U.S. assets abroad
    C. is registered as a debit in the current account, and it decreases U.S. assets abroad
    D. is registered as a credit in the capital account, and it decreases U.S. assets abroad

28. If Thailand has a balance of payments deficit, payments equilibrium can be restored if Thailand's _____.
    A. price level rises relative to the world's
    B. interest rate rises relative to the world's
    C. money supply rises relative to the world's
    D. real national income rises relative to the world's

29. On the balance of payments statements, merchandise imports are classified in the _____.
    A. current account
    B. capital account
    C. unilateral transfer account
    D. official settlements account

30. If Canada speculators believed the Swiss franc was going to appreciate against the U.S. dollar, they would _____.
    A. sell Swiss francs
    B. purchase U.S. dollars
    C. purchase Swiss francs
    D. purchase Canadian dollars

Continued...

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

a) Suppose the market basket consists of 10 units of X, 20 units of Y, and 30 units of Z. Prices in the year 2000 are RM1.00 for each unit of X, RM1.20 for each unit of Y, and RM1.13 for each unit of Z. Base-year prices are RM1.00 for each unit of X, Y, and Z.

i. What is the approximate CPI for the year 2000?

(6 marks)

ii. Suppose the CPI for year 1999 was 105, calculate the inflation rate for year 2000.

(1 mark)

iii. What are the costs associated with anticipated inflation?

(1 mark)

b) Suppose that Cindy's income during 1999 was RM50,000, and the CPI for 1999 was 150 (base year = 1992). Back in 1992, her income was RM30,000. Has her real income increased or decreased within that period?

(2 marks)

Part B

Exhibit 2 provides information on unemployment rates for Wonderland over a seven-year period.

Year	Unemployment rate (%)
2001	7.5
2002	9.0
2003	5.0
2004	4.0
2005	2.5
2006	6.0
2007	10.5

Exhibit 2

Wonderland has a population of 1,000,000 over the age of 16. The labour-force participation rate is 90%.

a) Calculate the size of the labour force of Wonderland.

(2 marks)

b) Calculate the number of workers unemployed in 2001.

(2 marks)

c) Calculate the number of workers employed in 2007.

(3 marks)

Continued...

d) Unemployment imposes costs on the unemployed as well as on the society. What are the costs it will impose on the society?

(3 marks)
[TOTAL 20 MARKS]

Question 2

Part A

Assume that all banks are fully loaned up, and Bank Negara Malaysia (BNM) sets the reserve requirement ratio at 10%. Suppose Maybank has RM80,000 in deposits and RM32,000 in reserves.

a) Prepare a balance sheet for Maybank based on the above information.

(2 marks)

b) What is the value of this bank's excess reserves?

(2 marks)

c) Calculate the value of money multiplier.

(1 mark)

d) By how much will total deposits expand if this bank lends all its excess reserves and there is no leakage from the banking system?

(2 marks)

e) Suppose that a depositor withdraws RM10,000 from Maybank. How will this affect the total deposits in the banking system?

(2 marks)

f) What are the tools that can be used by BNM to expand money supply?

(3 marks)

Part B

Draw a graph of a money demand curve and a money supply curve, label them as MD^0 and MS^0. On the graph, label the equilibrium interest rate as r^0. Assuming that the central bank reduces the required reserve ratio, how will this affect the money market. Show the changes on the same graph. What is the impact of this change on the real GDP in the economy?

(8 marks)
[TOTAL 20 MARKS]

Question 3

Part A

Consider two countries, Vietnam and Brazil, each capable of producing coffee and corn. Suppose the maximum amount of output that could be produced by both countries is shown in *Exhibit 3.*

	Coffee (tonnes)	Corn (bushels)
Vietnam	10	6
Brazil	12	12

Exhibit 3

Continued...

a) What is the opportunity cost of a tonnes of coffee for Vietnam and Brazil?

(3 marks)

b) What is the opportunity cost of a bushel of corn for Vietnam and Brazil?

(3 marks)

c) Which country has comparative advantage in producing coffee? Briefly explain.

(2 marks)

d) Which country has comparative advantage in producing corn? Briefly explain.

(2 marks)

e) If Vietnam and Brazil agree to trade, what is the possible term of trade for coffee? (Two countries split the difference between buyer's willingness to pay and seller's willingness to accept)

(2 marks)

f) Suppose each country specialises in the good for which it has comparative advantage, and they exchange 5 tonnes of coffee for some quantity of corn. Compute the consumption bundles of coffee and corn for each country.

(3 marks)

Part B

Vietnam decided to import corn from Brazil. Use a diagram to show consumer and producer surplus before and after trade. Is Vietnam better off after trade? Explain your answer.

(5 marks)

Part C

Exhibit 4 depicts current account information of Malaysia measured in billions of Ringgit Malaysia (RM).

Items	Amount (RM billion)
Exports of goods	3,325
Imports of goods	2,300
Exports of services	1,548
Imports of services	5,431
Income received from investments	456
Income payments on investments	521
Net transfer payments	-45

Exhibit 4

Based on ***Exhibit 4***,

a) calculate trade balance.

(2 marks)

b) calculate current account balance.

(2 marks)

c) if there is no statistical discrepancy, what is the capital account balance?

(1 mark)

Continued...

Part D

Exhibit 5 depicts the supply and demand for British pounds, as a function of the exchange rate expressed in U.S. dollars per pound. Assume that Britain and the United States are the only two countries in the world.

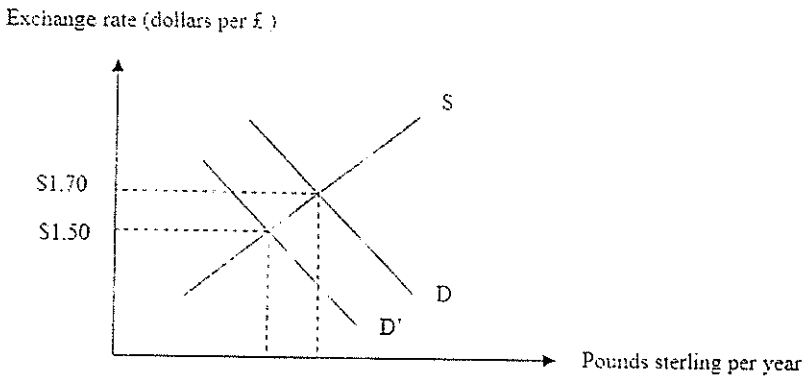

Exhibit 5

Based on ***Exhibit 5***,

a) provide any two reasons that cause the shift from D to D'.

(2 marks)

b) after the shift of demand curve from D to D', what is the immediate effect at the original equilibrium exchange rate of $1.70 per pound? What would happen to British balance of payments?

(2 marks)

c) As a result of the shift of demand curve from D to D', will the British pounds now appreciate or depreciate?

(1 mark)

[TOTAL 30 MARKS]

End of Paper